

STEPTOE & JOHNSON

ATTORNEYS AT LAW

JAN 31 1994

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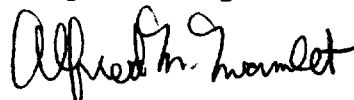
January 31, 1994

VIA HAND DELIVERYMr. William Caton, Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554Re: In the Matter of Request the Commission to
Establish a Permanent Replacement for the Current
Method of Funding the Universal Service Fund
(File No. RM 8408)

Dear Mr. Caton:

Enclosed please find for filing on behalf of Telefónica
Larga Distancia de Puerto Rico, Inc. an original and five copies
of Reply Comments In Support Of AT&T Petition For Rulemaking in
connection with the above-referenced matter.Also, enclosed please find one copy of the Reply
Comments In Support In Support Of AT&T Petition For Rulemaking to
be date stamped and returned with our messenger.If there are any questions concerning this filing,
please do not hesitate to contact me.

Respectfully submitted,

Alfred M. Mamlet
Counsel for Telefónica Larga
Distancia de Puerto Rico, Inc./srh-m
EnclosuresNo. of Copies rec'd
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CCB

JAN 31 1994

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of:

Request the Commission to
Establish a Permanent
Replacement for the Current
Method of Funding the
Universal Service Fund.

File No. RM 8408

REPLY COMMENTS IN SUPPORT
OF AT&T PETITION FOR RULEMAKING

Telefónica Larga Distancia de Puerto Rico, Inc. ("TLD") hereby files Reply Comments in Support of American Telephone and Telegraph Company's ("AT&T") Petition for Rulemaking in the above-captioned proceeding.^{1/} TLD provides interexchange and international telephone services to customers in Puerto Rico and the U.S. Virgin Islands.

TLD agrees with AT&T that the Commission should:

(1) develop, simultaneously with the Commission's upcoming comprehensive review of other issues related to the Universal Service Fund ("USF"), a permanent replacement for the current method of funding the USF; and (2) adopt a temporary revenue-based method for allocating USF costs to interexchange carriers ("IXCs"). AT&T Petition at 1-2.

^{1/} Petition of AT&T for Rulemaking (Nov. 24, 1993) ("AT&T Petition").

The AT&T Petition demonstrates that the Commission's current method for allocating USF costs based on the number of presubscribed lines may result in AT&T bearing a disproportionate share of the USF costs. According to AT&T, its USF costs are about twice as high per minute as its average competitor. AT&T Petition at 7-8 and Appendix 2.

TLD faces much higher USF costs on a per minute or per revenue dollar basis than either AT&T or the average IXC. As shown in Table 1 below, TLD pays 1.15 cents per minute to the USF while AT&T pays 0.25 cents per minute and other IXCs pay 0.125 cents per minute (on average).^{2/}

TABLE 1 USF COSTS (CENTS)			
	TLD	AT&T	OTHER IXCs
USF Cost/Billed Minute	1.15	0.25	0.125
USF Cost/Revenue Dollar	3.70	1.52	0.71

Therefore, TLD's USF expense per billed minute is 460% more than AT&T, and 920% more than the other IXCs (on average). Similarly, TLD's USF costs, as a proportion of long distance

^{2/} Data for AT&T and for other IXCs are reported by AT&T. AT&T Petition at 7-8. For 1992, TLD had 435,323 presubscribed lines, \$57,213,553 long distance revenues, 185,832,791 billed minutes, and \$2,135,184 in USF and Life Assistance expenses (includes data for presubscribed lines in Puerto Rico only since TLD did not begin service to presubscribed lines in U.S. Virgin Islands until the middle of 1992).

revenue dollars, is 243% higher than AT&T, and 521% higher than the average for all of the other IXC's.

AT&T correctly attributes its predicament to the fact that its customers "average significantly less usage and revenue per line than customers of other IXC's. . . ." AT&T Petition at 9. TLD's average customer generates far less usage and revenue than AT&T's average customer. Indeed, TLD has a number of presubscribed customers who make few, if any, long distance calls.

As shown in Table 2 below, the average TLD subscriber makes only 36 minutes of long distance calls per month, while the average AT&T subscriber makes 174 minutes and the average subscriber of the other IXC's makes 306 minutes of long distance calls.^{3/}

TABLE 2 MONTHLY SUBSCRIBER LINE USAGE AND REVENUE (1992)			
	TLD	AT&T	OTHER IXCs
Average Monthly Minutes Per Subscriber Line	36	174	306
Average Monthly Revenue Per Subscriber Line (\$)	10.96	29.23	53.03

^{3/} Data for AT&T and for the other IXC's are reported by AT&T. AT&T Petition at 9 and Appendix 1. The TLD calculations are based on the 1992 TLD data cited in footnote 2.

Usage for the average TLD subscriber is only 21% as much as the average AT&T subscriber, and only 12% as much as the average subscriber of other IXC's. Similarly, the average TLD subscriber generates only 37% of the revenues of the average AT&T subscriber, and 21% of the revenues of the average subscriber of the other IXC's.

The imposition of USF costs based solely on the number of access lines violates the Commission's well-established policy that charges imposed upon IXC's must "not unduly favor some IXC's at the expense of others."^{4/} Vice President Gore recently reaffirmed this principle when discussing universal service in connection with the National Information Infrastructure. "It is critically important, therefore, that all carriers must be obliged to contribute, on an equitable and competitively neutral basis, to the preservation and advancement of universal service."^{5/} The current method of allocating USF costs among IXC's is neither equitable nor competitively neutral because TLD pays 460% more than AT&T and 920% more than other IXC's on a per-minute basis to the USF.

This discriminatory imposition of costs on TLD has the particularly perverse effect of frustrating the goal of the USF. The USF was intended to promote telephone service by Americans

^{4/} See Petitions for Waiver of Various Sections of Part 69 of the Commission's Rules, Memorandum Opinion and Order, FCC 86-145, released April 28, 1986, ¶ 95. See also, e.g., Competition in the Interstate Interexchange Marketplace, 6 FCC Rcd. 5880 (1991).

^{5/} Vice President Gore, Address to Television Academy, at 9 (Jan. 11, 1994).

with relatively low incomes. Yet, TLD's customers, who have relatively low incomes and are among the least frequent users of telephone service in the entire country, are forced to bear a grossly disproportionate share of the USF expenses.^{5/} Higher USF costs increase rates charged to TLD customers and further discourage them from using telephone service. In addition, such excess costs thwart important efforts to increase penetration of telephone service in Puerto Rico. Therefore, the Commission's present method of financing the USF imposes higher costs on the very telephone users the USF was intended to support, decreasing the affordability and availability of universal service.

Accordingly, the Commission should promote universal service for all users, and equitable treatment for all IXC's, by: (1) developing, simultaneously with the Commission's upcoming comprehensive review of other issues related to the USF, a

^{5/} See Telefónica Larga Distancia De Puerto Rico, 8 FCC Rcd. 106, 113 (1992) (TLD originates service only in Puerto Rico and the U.S. Virgin Islands).

CERTIFICATE OF SERVICE

I, Alfred M. Mamlet, hereby certify that the foregoing Telefónica Larga Distancia de Puerto Rico, Inc.'s Reply Comments in Support of AT&T Petition For Rulemaking was served, via first class mail (except where indicated), postage prepaid, this 31st day of January, 1994 on the following persons:

Chairman Reid Hundt
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Commissioner James H. Quello
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Commissioner Andrew C. Barrett
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permanent replacement for the current method of funding the USF;
and (2) adopting a temporary revenue-based method for allocating
USF costs to IXCs.

Respectfully submitted,

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Dated: January 31, 1994

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